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CREDIT OPINION
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New Issue

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Lynchburg, VA

New Issue - Moody's assigns Aa2 to Lynchburg VA's $49.6M GO Bonds Series 2016

Summary Rating Rationale

Moody's Investors Service has assigned a Aa2 rating to the City of Lynchburg's $49.6 million General Obligation Public Improvement and Refunding Bonds, Series 2016. Concurrently, we have affirmed the Aa2 rating on the city's $229 million of GO debt outstanding. The Aa2 rating reflects the city's stable and diverse tax base that is supported by the presence of multiple higher education institutions and a large regional health care facility. The rating also reflects the city's sound financial position and above average debt burden made manageable by comprehensive policies and self-supporting enterprise debt.

Credit Strengths

» Strong operating results driven by conservative management

» Sizable tax base stabilized by institutional presence

Credit Challenges

» Below average wealth levels

» Above average debt burden

Rating Outlook

Outlooks are generally not assigned to local government credits with this amount of debt outstanding.

Factors that Could Lead to an Upgrade

» Continued growth in tax base

» Increased reserve levels

» Reduction in debt burden

Factors that Could Lead to a Downgrade

» Sizeable decline in tax base

» Reduction in reserves

» Significantly increased debt burden

Key Indicators

Exhibit 1

Lynchburg (City of) VA	2011	2012	2013	2014	2015
Economy/Tax Base					
Total Full Value ($000)	$ 5,864,104	$ 5,888,731	$ 5,930,510	$ 5,945,181	$ 6,002,828
Full Value Per Capita	$ 76,707	$ 76,276	$ 76,613	$ 76,344	$ 75,849
Median Family Income (% of US Median)	79.7%	82.1%	82.1%	82.1%	82.1%
Finances					
Operating Revenue ($000)	$ 203,166	$ 207,769	$ 215,005	$ 220,116	$ 226,546
Fund Balance as a % of Revenues	23.1%	23.4%	23.0%	24.8%	23.5%
Cash Balance as a % of Revenues	26.6%	26.2%	24.3%	27.3%	26.3%
Debt/Pensions					
Net Direct Debt ($000)	$ 177,415	$ 162,999	$ 148,593	$ 124,263	$ 129,125
Net Direct Debt / Operating Revenues (x)	0.9x	0.8x	0.4x	0.6x	0.6x
Net Direct Debt / Full Value (%)	2.1%	2.0%	1.5%	2.1%	2.2%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	N/A	1.3x	1.4x	1.2x	1.2x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	N/A	4.6%	4.9%	4.6%	1.6%

Source: Moody's Investors Service

Detailed Rating Considerations

Economy and Tax Base: Regionally Important Local Economy Continues to benefit from Diversification and Strong Institutional Presence

The city's economic base is expected to remain stable given a diversified private employment base with ongoing investment and the presence of multiple higher education institutions and a large regional health care facility. A regional commercial center in central Virginia (Commonwealth of) (GO rated Aaa/stable), Lynchburg has experienced a moderate 2% average annual growth in full valuation over the last five years and is now fully valued at $6 billion. Continued growth is expected as diversification efforts continue. In fiscal 2015 private companies invested over $57.3 million in the city and created 287 jobs while commercial building permits totaled $80 million.

Expansion of existing businesses reflects the city's economic development strategy focused on encouraging firms already located in the city to remain and expand their facilities. These programs include the development of two publicly owned industrial parks, the creation of a small-business assistance center with loans and low-cost office space, and the use of various targeted incentives including subsidized land, infrastructure, and cash grants. The city has also invested in a variety of redevelopment projects designed to revitalize the downtown area by attracting new commercial tenants and residential housing. Downtown currently contains 760 apartment, lofts condos and downtown business have increased by 205% in 10 years with assessed value nearly doubling since 2004.

Lynchburg also benefits from a number of stabilizing higher education institutions and the health care industry. Centra Health (rated A2/stable), the city's largest employer with 6,100 employees, provides three health and rehabilitation centers within Lynchburg. The city also includes five colleges, with a combined enrollment approximating 24,388, including Liberty University (rated Aa3/stable), which has aggressive growth plans reportedly intended to expand its 12,000 student body to 20,000 over the next 10 years. Liberty University also recently underwent a large scale $600 million campus transformation. Approximately 31% of the city's population is full-time students. Lynchburg's wealth indicators were below average representing 68.3% of the state and 79.7% of the nation, while per capita income represents 67.2% of the state and 79.0% of the nation. It should be noted that the presence of a sizable student population tends to negatively skew wealth indices. Full value capita, at $77,084 also remains below state and national medians. The city's unemployment rate of 5.4% is slighty above the nation and above state medians.

Financial Operations and Reserves - Strong Financial Operations with Sizable Reserves Despite One-Time Capital Transfer in Fiscal 2015

Lynchburg has a history of consistently solid reserve levels, with unassigned/undesignated General Fund balance averaging 18% of revenues over the last five years. Most recently, the city ended fiscal 2015 will a slight drop in total fund balance following a sizable $6.9 million transfer to the city's Capital Project Fund for one-time capital. Tax revenues were over-budget due to the positive performance of delinquent property, personal property, meals, and business license taxes. Total fund balance equaled $53 million or a sound 30% of revenues. The city's Schools Capital Project Fund totaled $4 million in fiscal 2015. Growth in economically sensitive revenues (meals, lodging and sales tax) along with business license taxes continue which positive growth annually since 2011. In fiscal 2015 sales tax grew by 8.4%, meals and lodging tax revenues grew by 4.8% and business license tax revenue increased by 1.7%, all reflecting a strengthening local economy.

The fiscal 2016 budget represents a 3.8% increase from the fiscal 2015 budget and includes $9.9 million in appropriated fund balance for capital projects which is consistent with City Council's adopted financial policies. Based on preliminary projections, the city expects to end fiscal 2016 with an approximate $4 million increase in General Fund balance. This anticipated increase in reserves is attributable to the positive performance of various local taxes including personal property, meals, and sales taxes, as well as conservative budgeting of expenditures.

LIQUIDITY

The city's liquidity position remains strong with net cash as a percent of revenues of averaging more than 25% for the last five fiscal years. Fiscal 2015 cash totaled $49 million or 27.9% of revenues.

Debt and Pensions: Above Average Debt Burden Expected to Remain Manageable

The city's debt burden is expected to remain manageable in the near-term despite additional borrowing plans given anticipated enterprise support for a significant portion of current and future long-term debt. The city's direct debt burden is an above average 2.6% of full valuation and net of approximately $101 million in enterprise debt due to the self-supporting nature of the city's water and sewer systems. The city's Revenue Supported Debt policy requires that enterprise funds meet a debt service coverage ratio of at least 1.2 times.

A substantial portion of sewer debt has been issued to comply with the city's combined sewer overflow (CSO) special order requirements. Management indicates that it will continue to raise rates to comply with the special order and to fund additional debt service. The city's $180 million five-year Capital Improvement Plan (2016-2021) primarily consists of $76.5 million in transportation projects, $22.6 million in sewer projects and $16.8 million in water projects. Approximately $34 million of the Capital Improvement Plan will be funded with additional GO bonds, $10.5 million of water bonds that are expected to be self supporting, while the remainder of the plan will be funded with pay go, low-interest state loans and state grants. Debt service represented a modest 8.1% of operating expenditures in fiscal 2015.

DEBT STRUCTURE

All of the city's debt is fixed rate.

DEBT-RELATED DERIVATIVES

The city is not party to any derivative agreements.

PENSIONS AND OPEB

The city and the city school board participate in the Virginia Retirement System defined benefit pension plan administered by the Commonwealth of Virginia (GO rated Aaa/stable) The city contributed 100% of its ARC for both of its pension plans in fiscal 2015. The city's combined adjusted net pension liability, under Moody's methodology for adjusting reported pension data, is $234 million or 1.07 times operating revenues. Moody's uses the adjusted net pension liability to improve comparability of reported pension liabilities. The adjustments are not intended to replace the city's reported liability information, but to improve comparability with other rated entities. We determined the city's share of liability for the state-run plans in proportion to its contributions to the plans.

The city and school board also provide Other Post-Employment Benefits (OPEB) to employees. The city contibuted 98.5% of its OPEB ARC in fiscal 2015 and 77.5% of the school board's OPEB ARC.

Management and Governance

Lynchburg has strong management including sound policies covering fund balance and reserves, debt, and capital planning. Virginia cities have an institutional framework score of "Aaa," or very strong. City revenues are highly predictable as the majority come from property taxes. Revenue raising ability is high because cities have the ability to increase property tax rates annually, without limit. Expenditures, which are primarily for educational costs, are highly predictable and cities have a strong legal ability to reduce costs quickly if needed given a modest fixed cost burden and no collective bargaining units.

Legal Security

The bonds are secured by the city's general obligation unlimited tax pledge.

Use of Proceeds

$17 million of new money proceeds will fund various general fund capital projects, $12.6 million of new money proceeds will fund various water sewer projects (debt service is expected to be self-supporting). Additional proceeds will be used to refund various outstanding maturities for an expected net present value savings above 3% without extending debt maturity.

Obligor Profile

Located in central Virginia (GO rated Aaa/stable) approximately 70 miles south of Charlottesville (rated Aaa/stable), Lynchburg acts as a commercial center for the region. The city is home to five higher education institutions, including Liberty University (rated Aa3/stable), the largest private university in the Commonwealth.

Methodology

The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2014. Please see the Ratings Methodologies page on www.moodys.com for a copy of this methodology.

Ratings

Exhibit 2

Lynchburg (City of) VA

Issue	Rating
General Obligation Public Improvement and Refunding Bonds, Series 2016	Aa2
Rating Type	Underlying LT
Sale Amount	$49,600,000
Expected Sale Date	04/29/2016
Rating Description	General Obligation

Source: Moody's Investors Service

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